CIO as Venture Catalyst?

by Donald L. Laurie

Contents

Foreword

Ventures provide solutions to current and next generation business problems. Increasingly ventures have a strong IT component. IT-enabled ventures are helping enterprises to grow and create new businesses. They are fuelling revenue growth, increasing productivity and reducing business costs.

But stimulating and nurturing IT-enabled venture strategies is not really part of the CIO's role. This is risky terrain and a distraction from a CIO's core responsibilities. Or is it?

This report describes and applies a practical framework for IT-enabled venture investing and new business creation. It explores tried and tested 'venture catalyst' principles from other industries and examines the implications for the leadership agenda for CIOs and CTOs. The report looks at: How can CIOs and business leaders extract value through IT-enabled ventures?

CIOs as Venture Catalyst? was written by Donald L. Laurie, with input from many Gartner associates. Donald Laurie is chief executive of the Boston-based management consultancy firm, Oyster International (www.oysterinternational.com) and a special partner in Zero Stage Capital. He is the author of Venture Catalyst: The Five Strategies for Explosive Corporate Growth, The Real Work of Leaders and Harvard Business Review classic, The Work of Leadership. He can be contacted at don@oysterinternational.com.

Richard Hunter (Gartner Executive Programs vice president and research director) led the internal project team for this report, providing advice on structure and focus, challenging evolving ideas, acting as a sounding board and providing access to resources and data. Richard can be contacted at richard.hunter@gartner.com.

Assisting Don and Richard were members of the EXP Research team, and in particular Marianne Broadbent (group vice president and head of EXP research) and Marcus Blosch (EXP research director).

Many organizations and individuals from around the world contributed to this work, and in particular:

- Paul Burfitt, AstraZeneca; Michael Cline, Accretive Technologies; John Collis, b-business partners; Yves Doz, INSEAD; Eric Elzvik, ABB; Gunnar Gremlin, SKF; John Leggate, BP; Murray Metcalfe, Lee Munder Ventures; Adam Rin, SI Ventures; Stuart Scantlebury, Boston Consulting Group; Jeff Stamen, Syncra Systems; and Peter Weill, Massachusetts Institute of Technology (MIT).
- Colleagues from within Gartner include: Jim Adams, John Bace, Jennifer Beck, Linda Cohen, Michael Fleisher, Claudio Da Rold, Tim Enwall, Michael Gerrard, John Geyer, Claudio Marcus, Zachary Morowitz, Andrew Rowsell-Jones, Carol Rozwell, Rebecca Scholl, Chuck Tucker, Dennis Wayson and Roger Woolfe.

exp C L U B

Layout/Production Team:
Patty Ivan-Pal, Beatriz Pabon, Chris Marmion

Executive summary

Extracting value with IT-enabled ventures creates wealth and solves business problems.

Perceptive leaders leverage technology to drive revenue and lower cost. They urgently want to improve and win in their highly competitive markets. Ventures are an important tool in their toolkit that provides access to new technologies and emerging markets.

However, there is no shortage of skeptics. Many companies have invested in ventures and lost money. CIOs tend to be more comfortable with external service providers (ESPs) as the source of new and well-tested solutions. For those that would like to experiment, the infrastructure and support to address these opportunities often do not exist.

In the past, new business creation and venture investing was the area of entrepreneurs and venture capitalists. In the future, ventures will be an integral part of corporate strategy and execution. This report explores the role of IT-enabled ventures in wealth creation and problem solving and answers the question: How can CIOs and business leaders extract value through IT-enabled ventures.

Section 1: What are venture strategies and why are they necessary?

The paradox is that many companies aspire to double-digit growth, but the average growth rate of Fortune 50 companies and often those with more than $10 billion in revenue is less than 5 percent.

Ventures are a way to break out of the low growth trap while allowing enterprises to fuel revenue growth, increase productivity and reduce cost.

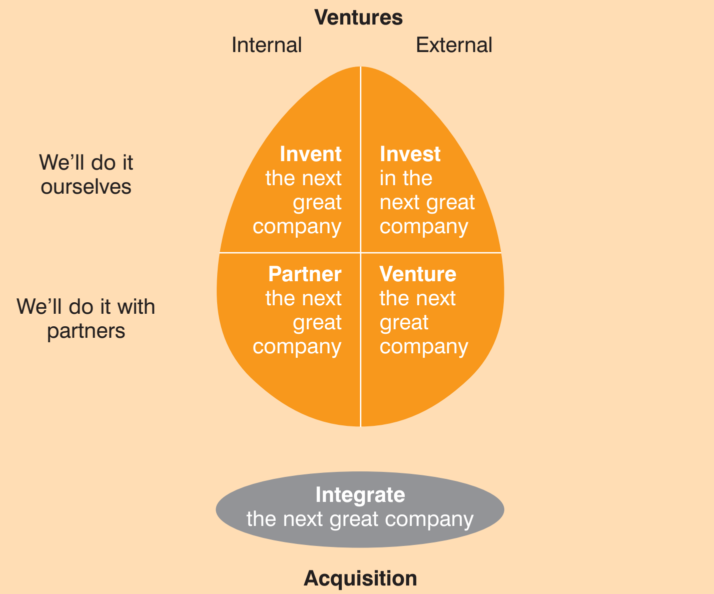
There are five different types of venture strategies, each of which aims to produce the next great company. An enterprise can “invent” the next great company, “partner” with another company to form the next great company, “invest” in the next great company, and form alliances with venture capital firms to create or “venture” the next great company. It can also integrate with the next great company or create the next great company through a “merger and acquisition.” These five strategies together create the *venture catalyst framework*.

Intel, Procter & Gamble (P&G) and Johnson & Johnson (J&J) are all examples of companies committed to these venture

“From a leadership perspective, ventures are an important route to growth. For many companies in the future, if you can’t venture, you can’t grow.”

Donald L. Laurie, Venture Catalyst: The Five Strategies for Explosive Corporate Growth, Perseus Books, 2001

Venture strategies increase revenue and earnings growth



Source: Donald Laurie, *Venture Catalyst*, Terseus Books, 2001

strategies as a source of growth and business problem solving. They are not limited to the traditional notion of venturing with external parties, but use a venture strategy portfolio approach that includes investing and inventing to both extract and create value.

For example, from 1989 to 1999, 40 percent of J&J revenues came from products and services that did not exist five years earlier. Intel and General Electric (GE), whose annual investments have been as high as $1 billion per year, are also reaping benefits from venture plans that are integrated with their corporate strategy. In 2000, Intel's venture activities contributed $3.7 billion to earnings and it wrote down $632 million worth of investments last year.

These companies recognize traditional research and development won't achieve their desired future. They believe that earnings can also be improved through increased productivity and reduced cost through IT-enabled business processes, and better, more integrated enterprise applications and outsourcing. Return on investment (ROI) payback and speed of solving business problems will be the key metrics.

On the other side of the coin though, unmanaged and opportunistic venture activities within companies have lost a lot of money in recent years. For example, Wells Fargo, Compaq Computer and Comdisco are leaving the field after losing $1 billion, $500 million and $150 million, respectively.

Section 2: How are venture strategies linked to corporate objectives?

Jeff Immelt, chairman and CEO of GE, recently challenged GE managers to "reduce the cost of operating back room and business processes by 75 percent."

Squeezing resources and using existing infrastructure and technology might achieve a reduction of 10 percent – not 75 percent. With this goal, managers need to stare at the ceiling and figure out new ways of working and new solutions.

GE aims to achieve its objective partly through increasing its IT budget by 12 percent and undertaking to shift from a, "60 percent front room/40 percent back room" scenario, to a "90 percent/10 percent" relationship from 2001 to 2004.

IT-enabled ventures are part of the solution to this challenging goal.

Section 3: What are examples of successful IT-enabled business models?

New, billion-dollar businesses have been created from process control, supply chain management and reservation system business processes.

For example, a customer survey at SKF, a Swedish manufacturer of ball bearings revealed that customers were unhappy about the costly downtime on their heavy machinery. SKF formed a new service subsidiary to develop process-monitoring equipment. This subsidiary is now in a healthy growth phase and is investigating other business opportunities in other industries.

The Corporate Advantage Partners (CAP) Fund is a unique new business model that links business managers with problems, to venture capitalists who offer both funds and consulting services.

Section 4: How reframing your challenges highlights opportunities

There are competing perspectives about the relevance of venture strategies. Some CIOs will only introduce new software once it has been proven and established and is now more of a commodity. Other business managers and CIOs, usually from high performance cultures, seek new ways of thinking and new tools to compete with. They see the need to look beyond the headlights and see their role as building for the future as well as dealing with the here and now.

Companies like Adobe Systems, BP, P&G and SKF and recognize the power of their intellectual property and technology. They recognize new business creation and venture investments are underexploited. They have demonstrated the will and the skill to extract value from their asset base through unique and original IT-enabled ventures. These opportunities are rarely maximized in most companies.

Entrepreneurs, venture capitalists and some CIOs recognize the potential – why shouldn't more CIOs and operating managers? Are there assets waiting for exploitation in your organization?

"We learned not to make a deal unless everybody wins. It's important to be a long-term holder. This really helps when we are dealing with large corporations. They are in business for the long terms and appreciate this mindset."

John Scott, Chairman and CEO, XL Vision, Inc.

Section 5: Craft your own business model

Exploring the hidden potential of a company's intellectual property and technology requires asking a different set of questions and motivating managers to seek possible solutions through venture strategies.

Ventures and more specifically, IT-enabled ventures will play an important role in the future.

CIO as Venture Catalyst – not such an unrealistic expectation!

- How can business leaders extract value through IT-enabled ventures?
- What are venture strategies and why are they necessary?
- How are venture strategies being applied to IT-enabled ventures?
- What are examples of successful business models?
- How can the CIO reframe the challenge?
- How can we craft our unique business model?

"Our only competition is the old way of doing things."

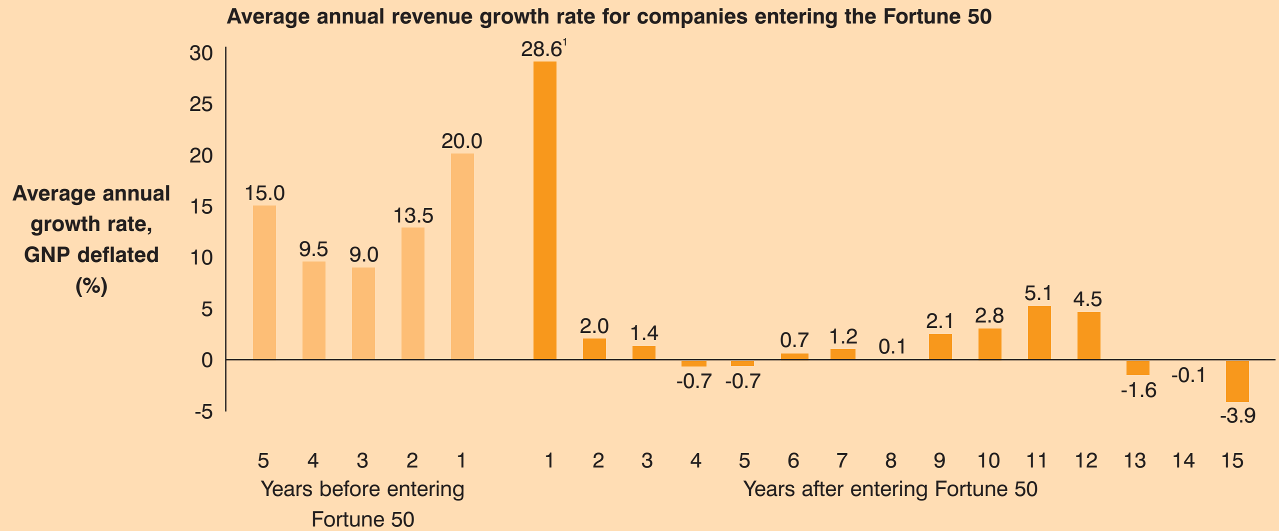
John Scott, Chairman and CEO, XL Vision, Inc.

SECTION 1

What are venture strategies and why are they necessary?

Organizational inertia, business risk management and institutionalised processes keep many large corporations from pursuing innovation, new business creation and venture investing. They just can't do it. Yet, new ventures are a source of growth, increased productivity, lower cost and competitive advantage. What is to be done?

Sustaining growth in large companies will be difficult



[1] Many companies vault into the Fortune 50 via major acquisition and never again sustain meaningful growth rates above GNP

Source: "Stall Points, Barriers to Growth for the Large Corporate Enterprise," *Compustat; Corporate Strategy Board*. 1998

Sustaining growth will be difficult

The growth curves of large, global companies often flatten (see the figure) just as they enter the Fortune 50. Hewlett-Packard (HP) grew at 20 percent for 19 years, and in the following year growth slowed to 5 percent, like virtually every other Fortune 50 company. The same pattern often occurs with companies whose sales tip $10 billion.

Essentially, a mature corporation can grow in three ways: organically, through merger or acquisition, or with venture strategies.

Organic growth, through product-line extensions or geographical expansion, generally yields 2 percent to 4 percent growth in mature industries.

Growth through corporate acquisition is elusive with 65 percent to 70 percent of all acquisitions failing to achieve their objectives. For example, when HP announced the acquisition of Compaq Computer, both stocks hit 52-week lows. Wall Street doesn't often reward this route to growth.

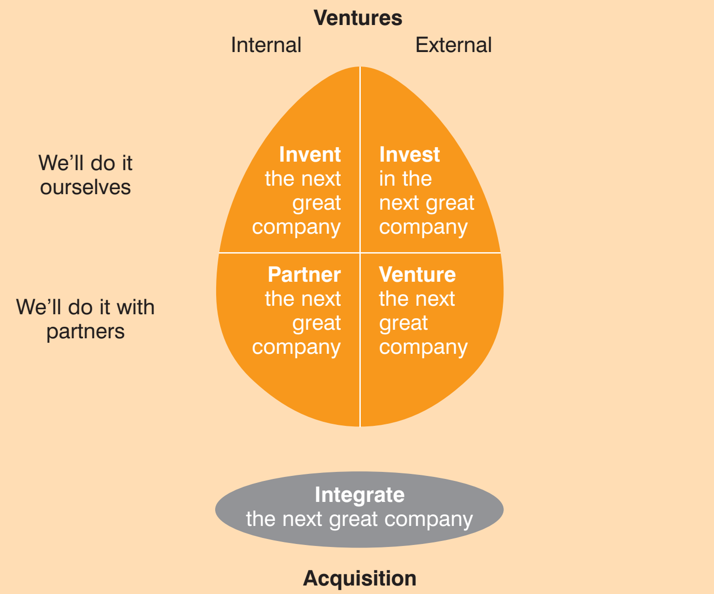
We see, however, that ventures – new business creation, venture investing, and the acquisition and integration of ventures – promise and deliver results. Even accounting for the dot-com bubble and hi-tech slide, the past 10 years has seen entrepreneurs and venture capitalists involved in more than $3 trillion of new wealth.

Five strategies stimulate growth

The framework developed in Venture Catalyst: The Five Strategies For Explosive Corporate Growth (Donald L. Laurie, Perseus Books, 2001) identifies five venture strategies as the basis for ongoing growth, wealth creation and problem solving.

- Inventing new platforms, products and businesses from existing intellectual property in both core and noncore technologies – including IT-enabled ventures.
- Investing in new technologies and emerging markets.
- Partnering with other companies or facilitating technology spinouts, carve-outs or de-mergers to provide space for action and allow management to enhance market capitalization.
- Venturing to fuel revenue growth or seek ventures as solutions to business problems in areas related to business

Venture strategies increase revenue and earnings growth



Source: Donald Laurie, *Venture Catalyst*, Perseus Books, 2001

processes, enterprise applications, security, knowledge management and collaboration and mobility.

- Acquiring and integrating ventures that both supplement the existing product and business portfolio, and provide entry to emerging markets.

Invent the next great business

Corporate approaches toward inventing the next great business range from informal and underfunded "pet projects" within a business unit, to disciplined processes that are well funded and managed by enlightened CEOs committed to growth.

Corning Inc. has a multistage approach to building new businesses. The company methodically steers new business opportunities through feasibility assessments, lab tests, product and manufacturing design, and finally funding through commercialization. Its innovation process reflects a deep respect for company researchers and scientists, and is a breeding ground for future leaders.

Invest in the next great business

Establishing corporate venture groups, and committing money and other resources to entrepreneurial ventures can also achieve growth.

A corporate venture group comprises company employees who work together as strategic investors, simultaneously competing with, and investing with, traditional venture capitalists.

Intel Capital's 200 venture managers invested $1 billion annually in network infrastructure, Internet services, enterprise systems, wireless applications, and other segments. Many of these ventures use Intel microprocessors, but the primary goal of Intel's investments is the identification of the "next new thing" and to stimulate consumption of Intel's key product – microprocessors of ever increasing power.

Partner the next great business

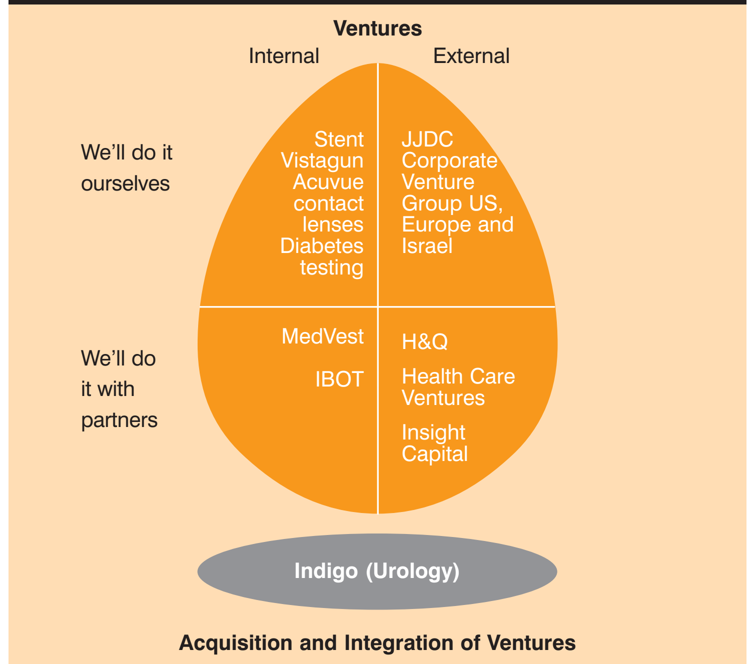
Companies with different and complementary skills can establish partnerships that create new businesses.

P&G and Redpoint Ventures combined big-company technology and intellectual property with business-building experience at a venture capitalist to create Reflect.com, an Internet-based customized cosmetics company.

"We measure the probability of success versus the size of the opportunity. We don't want to have the birth of a mouse. We want to have the birth of elephants. We don't want to spend four years and $400 million to get a $100 million business."

Roger Ackerman, former Chairman and CEO, Corning Inc.

Johnson & Johnson does it all



Venture the next great business
Venturing is used in this report to describe a venture strategy where companies form powerful and synergistic alliances with venture capital firms.

Granite Ventures, for example, is a San Francisco-based venture capital firm that manages dedicated corporate venture funds for Texas Instruments and Adobe. Zero Stage Capital of Boston offers corporate investors the ability to invest in East Coast ventures. These funds offer corporate investors a window on technology and emerging markets they would otherwise lack the skills to exploit.

Acquire and integrate the next great business
Acquiring and integrating capabilities, know-how and technologies can be alternatives to traditional research and product development, as well as being bridges to important, emerging markets.

Cisco Systems, an industry leader in Internet infrastructure, used this approach with remarkable success. Their acquisition criteria – short-term customer success, similar long-term strategic goals and chemistry – fit with the Cisco culture. And as a result of its experience, the company has perfected an approach that can integrate information technology systems within a week and people within a month.

J&J proves one company can do it all
From 1989 to 1999, an estimated 40 percent of J&J's revenue came from products and services that did not exist five years earlier. This highly decentralized company operates in each of the cells outlined in the framework on page XX.

Doing the "invest"
An internal venture group, JJDC, invests $80 million to $100 million annually in more than 20 ventures in medical devices, biotechnology, diagnostic tools, and other health offerings.

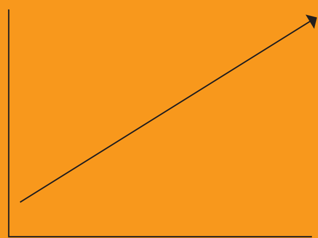
Doing the "venture"
JJDC's limited partnership with Health Care Ventures provides access to biotechnology ventures while a dedicated corporate venture fund with Hambrecht & Quist enables it to pursue medical information and technology opportunities.

Doing the "invent"
J&J has built billion-dollar businesses from its own, and

"Unless potential partners can harmonize their expectations, they run the very real risk of simply wasting time on a deal that will never be consummated. Aim to close the deal within three weeks. If it takes longer, the impending problems assume a life of their own and the deal is doomed."
Donald L. Laurie, Venture Catalyst: The Five Strategies for Explosive Corporate Growth, Perseus Books, 2001

Trends and future needs

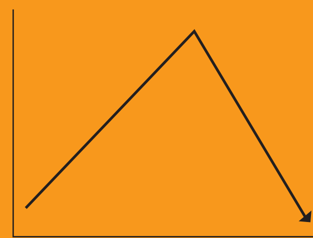
Venture Investing



	Corp.	Total venture capital	
1995	$ 0.1	$ 5.5	2%
2000	$ 17.0	$ 102.6	17%

From 30 to 330 Corporate venture capital groups in 5 years

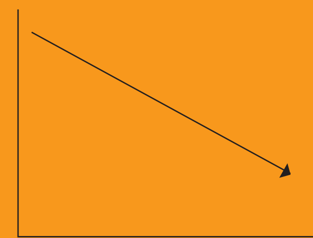
Losses



1997 1998 1999 2000

$9.5 billion in write-offs during first six months of 2002...

Valuations



Lower valuations; great time to invest

licensed, technology in such areas as endoscopic surgical tools, disposable contact lenses, and home glucose-monitoring systems.

Doing the "partner"

Currently, the company is working with inventor-entrepreneur Dean Kamen, to commercialize his wheelchair that climbs stairs.

Doing the "acquire and integrate"

J&J also acquired Indigo Medical Inc., a company with a seed technology cure for prostate cancer, which it's integrating with its other urinary-tract businesses, establishing a new business in the rapidly growing urinary market.

Venture catalyst: not such an unreal expectation?

The venture catalyst is the individual or group that takes responsibility for seeing the potential of a business idea, mobilizing the team and making a venture happen with speed. Throughout the process, the venture catalyst is aware of being – along with the business – exposed to danger, the possibility of failure and financial loss. If, however, the venture catalyst and the business succeed or win, they increase competitive advantage and shareholder wealth.

Corporate venture activities are organized into three groups

Unmanaged and opportunistic	What to do?	Strategic
• Wells Fargo • Compaq • Comdisco	See the potential, partner and learn	• Intel • GE • J&J, Motorola, etc.
Leave the field	**Seek out new venture investing model**	**Adapt and go forward**

Analysis of the five paths and the organizations that have chosen to follow them reveals that most successful venture catalysts experiment with, or follow, two or more directions simultaneously.

Venture investing pioneers recognize IT is a catalyst for sustained growth

Venture investment traces a roller-coaster history. In 1995, venture capital investing was $5.5 billion; a scant 2 percent of

"If we haven't seen dramatic results, it is because ventures represent a new and emerging field for growth."

Eric Elzvik, Group Vice President, Strategy and Ventures, ABB

that total was corporate. In 2000, venture capital investments rose to $102 billion. Seventeen percent, or nearly $20 billion, of that was corporate. In the first two quarters of last year, investors saw corporations write off more than $9.5 billion. We can speculate that number doubled by year-end. In a nutshell, the corporate write-off last year was the same amount it invested in venture capital two years ago.

The next section links venture strategies to overall corporate strategy, and demonstrates how IT can be used to exploit this alliance.

"Few executives have incentives to mine the opportunities that intellectual property affords their companies, and most lack the experience necessary to create or build businesses, and the ability to attract entrepreneurial leaders. As a result, because new business creation is not a serious part of their strategy, they forfeit both revenues and earnings growth."

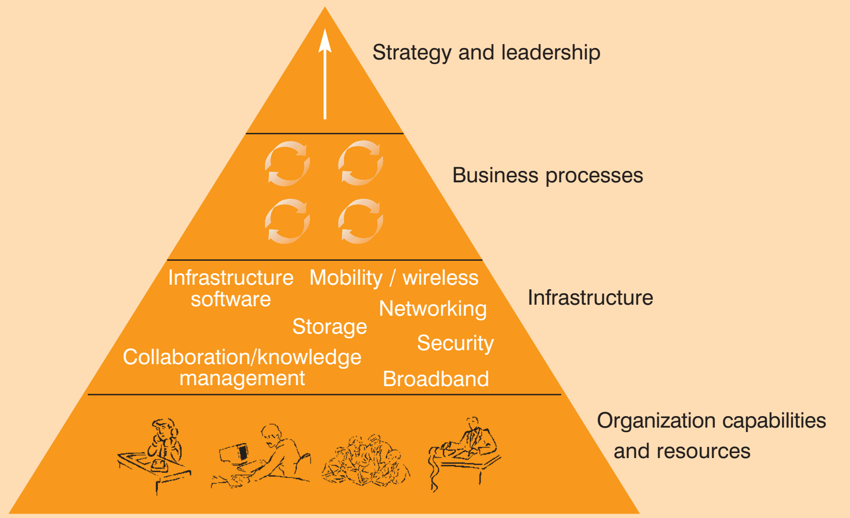
Donald L. Laurie, Venture Catalyst: The Five Strategies for Explosive Corporate Growth, Perseus Books, 2001

SECTION 2:

How are venture strategies linked to corporate objectives?

Corporate objectives and their consequent business strategies lead to identifying critical business processes. Venture strategy approaches are part of the toolkit that delivers on those strategies and new or redesigned processes.

Aligning technology to corporate strategy is essential



Strategic fit is essential

Aligning strategy with corporate objectives is essential

The starting point for effective venture strategies is a differentiated and winning business strategy. For example, Dell Computer combined a bold strategy with extensive IT investment internally, as well as creating Dell Ventures.

Dell's strategy to bypass a direct sales force and dealers, and respond to customers via telemarketing was unique. Its efficient IT-enabled supply chain management enabled Dell to hold five days of inventory when its competitors hold more than 30. This has made a big difference in a market where component prices change daily.

The infrastructure (i.e., platform and application) enables the business processes to run effectively and achieve their objectives. The strategy may assert the need for a maximum of five days of inventory but designing systems and managing suppliers' potentials may lead to a different reality.

While Dell has clearly put a lot of effort into aligning its mainstream business with technology capabilities, it also actively uses a venture catalyst approach. Dell Ventures seeks investments that can improve revenue growth and productivity. It privately labeled a third party middleware product for its small and midsize customers and uses "Conversations" from Divine, Inc., for predictive dialing. The software product dials thousands of numbers and distinguishes between a live response and a recorded message.

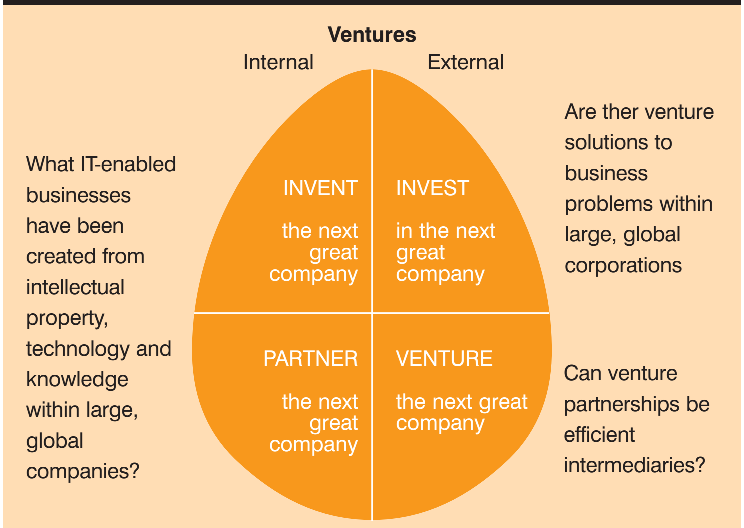
Part of its investment philosophy is, if this solves a problem for Dell, there are probably other companies that require the solution.

Explore your potential for venture strategy-based results

The venture catalyst framework referred to in Section 1 shows that considerable new wealth is created through both internal and external venture strategies.

CIOs and other members of the executive management team committed to extracting value from assets should ask themselves the questions below.

Progressive CIOs will extract value from assets through IT-enabled ventrues



The framework is relevant for business process management and IT services

Internal Ventures Strategies

If you are exploring the potential for venture strategies within your organization, you should ask:

- What IT-enabled businesses have been created from intellectual property, technology and knowledge within large, global companies?

Internal ventures exploit the intellectual property, know-how and ideas that already exist within your company.

External Venture Questions

The questions associated with external ventures should be:

- Are there venture solutions to business problems within global corporations?
- Can venture firms be efficient intermediaries between business managers with problems, CIOs and entrepreneurs?

External ventures involve startup organizations, the use of external entrepreneurs, and third party organizations you can invest in, or through.

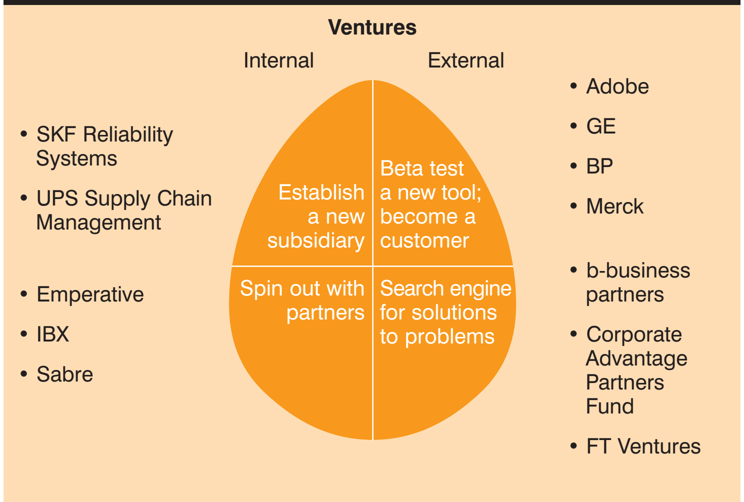
The next section explores specific business models that have used these questions to successfully extract value through IT-based venture strategies.

SECTION 3

What are examples of successful IT-enabled venture catalyst business models?

Executives have two mission-critical activities. First, they must deliver acceptable quarterly results. Second, they must have a pipeline to the future in terms of platforms, products and technologies.

IT-enabled venture examples: wealth creation and solutions to business problems



Four of the five venture strategies – invest, partner, invent, and venture (forming investment partnerships with venture capital firms) – have been applied to IT-enabled developments to create wealth and solve business problems.

[Note after PDF stage delete Johnson controls, Motorola security and FT ventures from diagram and change SKF Condition Monitoring to SKF Reliability Systems]

Inventing the next great IT-enabled business

Inventing SKF Reliability Systems

In an effort to increase sales, SKF, a Swedish manufacturer of ball bearings, went to its customers and said, "How are we doing and, what kind of problems do you have?" It discovered customers weren't complaining about ball bearings. Rather, they were complaining about downtime on their heavy equipment, which was enormously costly.

This led to a team being formed, comprising a business manager who understood these needs and an IT manager with business process expertise. This team developed process-monitoring devices for the heavy equipment machines – an invented new business.

SKF Reliability Systems was established as a wholly owned subsidiary. Its role is to anticipate problems and minimize expensive downtime costs. With this new capability, SKF shifted from a manufacturing to a service business that shares the savings with its customers.

Sales at SKF Reliability Systems are climbing in a market that is growing by 50 percent annually. Once established in this segment, it will expand into other business areas or industries in need of cost savings through process control.

Inventing UPS Supply Chain Solutions

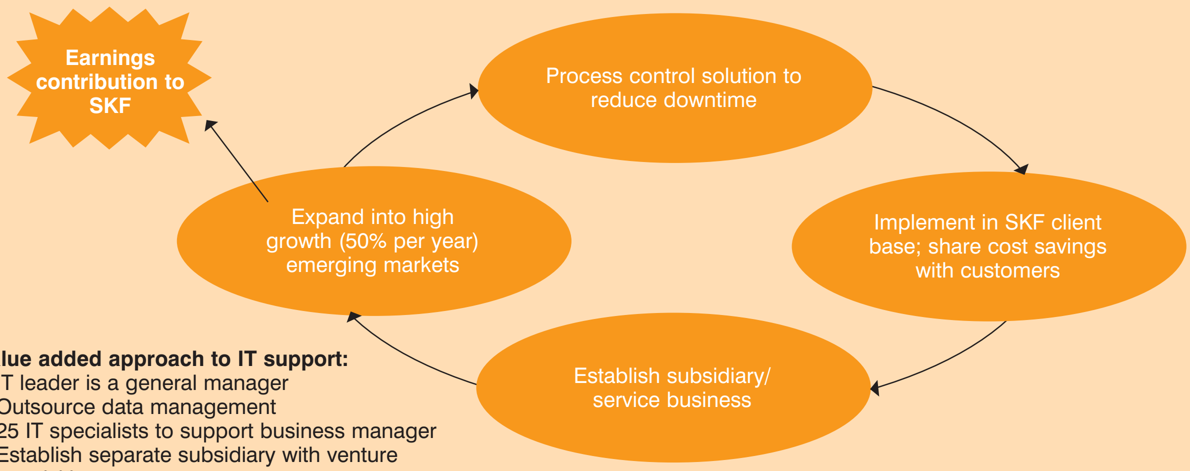
UPS, a leader in packaging delivery recently established a new IT-enabled business to pursue a $3.2 trillion supply chain industry. UPS Supply Chain Solutions provides logistics, freight services, capital, consulting and mail groups. Combined UPS Supply Chain subsidiaries account for $26 billion annually. This capability is transforming UPS's package delivery business and fuelling growth.

"There is a large gap between Boardroom expectations and the reality of shop floor automation."

Eric Elzvik, Group Vice President, Strategy and Ventures, ABB

Internal investment: SKF condition monitoring

Problem: How to reduce downtime on heavy machinery
Solution: Central management of condition monitoring equipment at multiple locations



Value added approach to IT support:
- IT leader is a general manager
- Outsource data management
- 25 IT specialists to support business manager
- Establish separate subsidiary with venture acquisition

Investing in the next great IT-enabled business

BP invests in Exult

BP signed a $600 million, five-year contract with Exult Inc., which provides IT-enabled human resource services. The deal has cut BP's direct costs by 20 percent, redeployed 300 employees, leveraged its balance sheet, and streamlined operations. BP acquired 8.5 million shares – approximately 10 percent – of Exult, whose market capitalization has been as high as $2 billion. That is $200 million in new shareholder wealth. "We didn't invest to make money, but to leverage BP," says John Leggate, BP's group vice president, Digital Business.

Adobe Systems invests in Biz360

One of the missions for the venture capital group within Adobe, the software company, is to improve operations of Adobe's portfolio companies. Focusing on efficiency and productivity, Adobe offers DigitalThink courses to employees as well as customers. The company's public relations department uses Biz360, an online company in which it invested, to analyze the effectiveness of its public relations efforts in the marketplace. Currently, Adobe is beta-testing a commercial Biz360 product that should provide better advertising and public relations information for reporting and decision-making.

Partnering the next great IT-enabled business

Partnering with Procter & Gamble

Forming partnerships can also create the next great IT-enabled business. P&G has long been a recognized leader in brand and marketing management. Recently, it leveraged this know-how by spinning out Emperative, an Internet-based marketing management company.

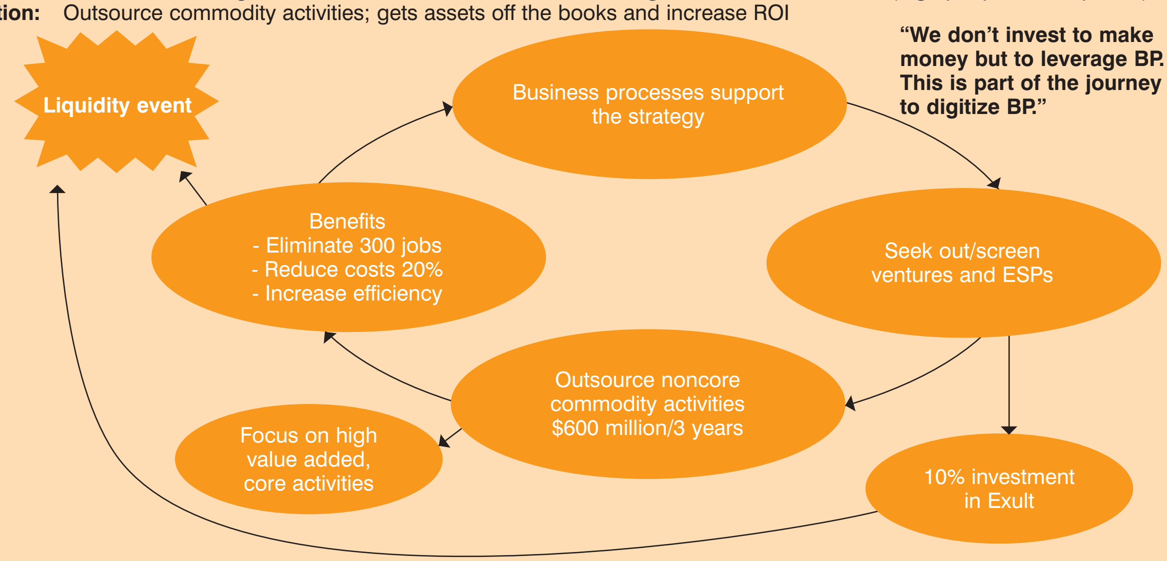
Until recently, P&G had 30 marketing systems. It decided to consolidate its "best practices" into one, Web-based system. Using Magnify, a workflow manager platform, the company was able to provide project management capability, as well. The offering was further enhanced through online training and management capabilities. "Blue chip" customers, including Coca-Cola and Philips, increased productivity, reduced time-to-market and achieved a three to tenfold payback in two years. P&G discovered 30 percent of $1 billion advertising spending was not connected to P&G's corporate strategy.

"No matter how promising a technology is, if the company is not successful in the marketplace, you probably didn't achieve your strategic objective. That was a revelation to us, and it certainly brought home the importance of focusing on financial returns."

Jim Huston, Director of Strategic Investments, Intel Capital

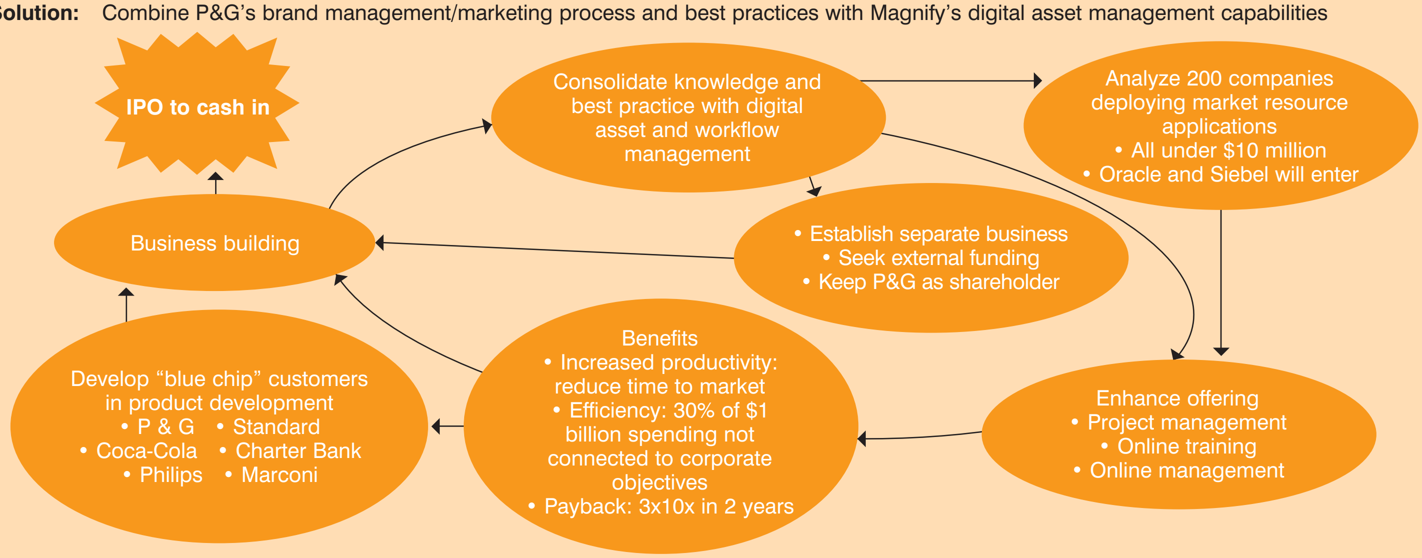
External investment: Exult

Problem: How do we leverage BP's HR assets. How do we focus on high value added activities (e.g., people development)
Solution: Outsource commodity activities; gets assets off the books and increase ROI



Partner: Emperative

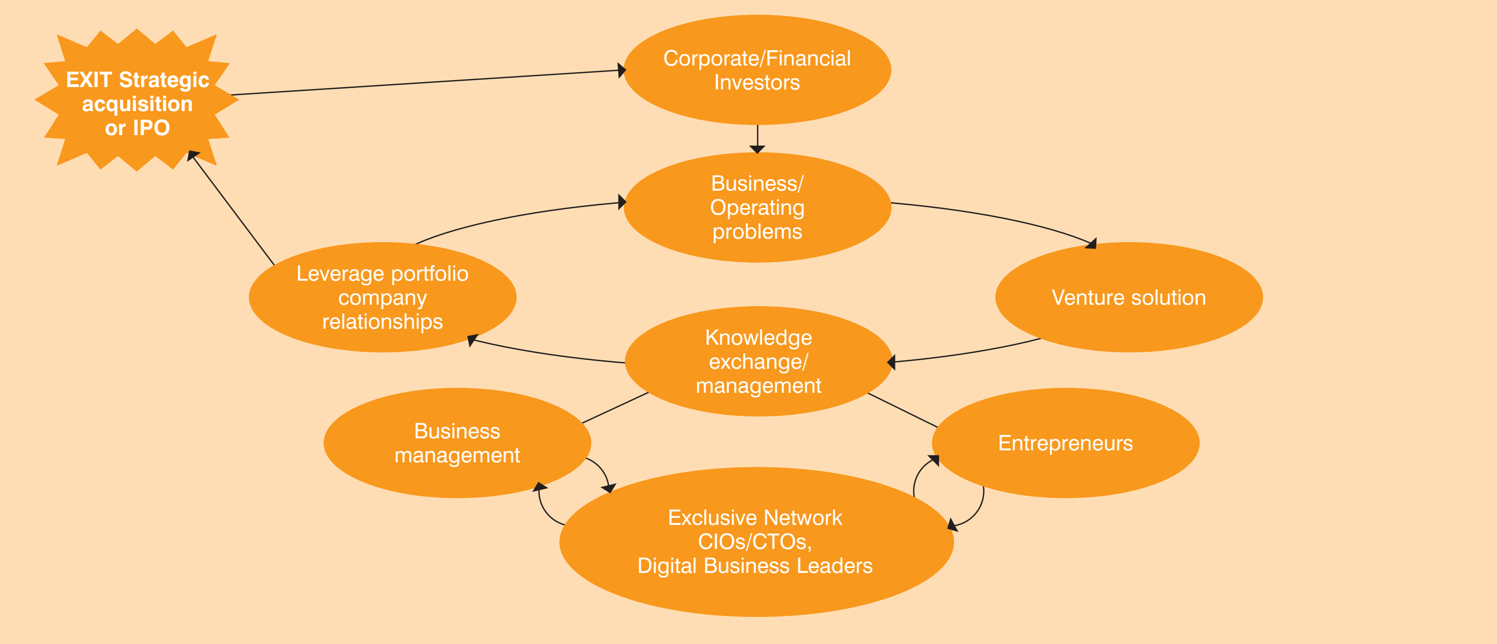
Problem: There are 30 systems to carry out responsibilities of the marketing function – we need one Web-based system
Solution: Combine P&G's brand management/marketing process and best practices with Magnify's digital asset management capabilities



"We invested in IBX to better serve our small and midsize customers, among other things."

Carl Sundvik, Vice President, e-investments, SEB

Venture: Zero stage capital fund model



Partnering with IBX

The Integrated Business Exchange (IBX) is a Swedish-based B2B exchange established by Ericsson and Swedish bank SEB. Ericsson wanted to leverage its "click-to-buy" purchasing of nondirect materials, including computers, desks, consulting services, travel and related activities. SEB wanted to finance purchases and eventually offer the service to their small and midsize customers. IBX customers now experience considerable savings. The new business is generating revenue of $200 million and has achieved a dominant position in the European business exchange market.

Partnering with Sabre Systems

Sabre Systems, the ticketing and reservation company, was spun out of American Airlines (AA) in combination with EDS. Everybody knows this. What is less well known is that as of March 25, 2002, Sabre's market cap of $6.2 billion exceeds AA's $4.1 billion market cap by 51 percent. Said differently, by leveraging one business process – reservations and ticketing – Sabre extracted more value from AA than airline executives were able to accomplish by operating the company as a whole.

Venturing the next great IT-enabled business

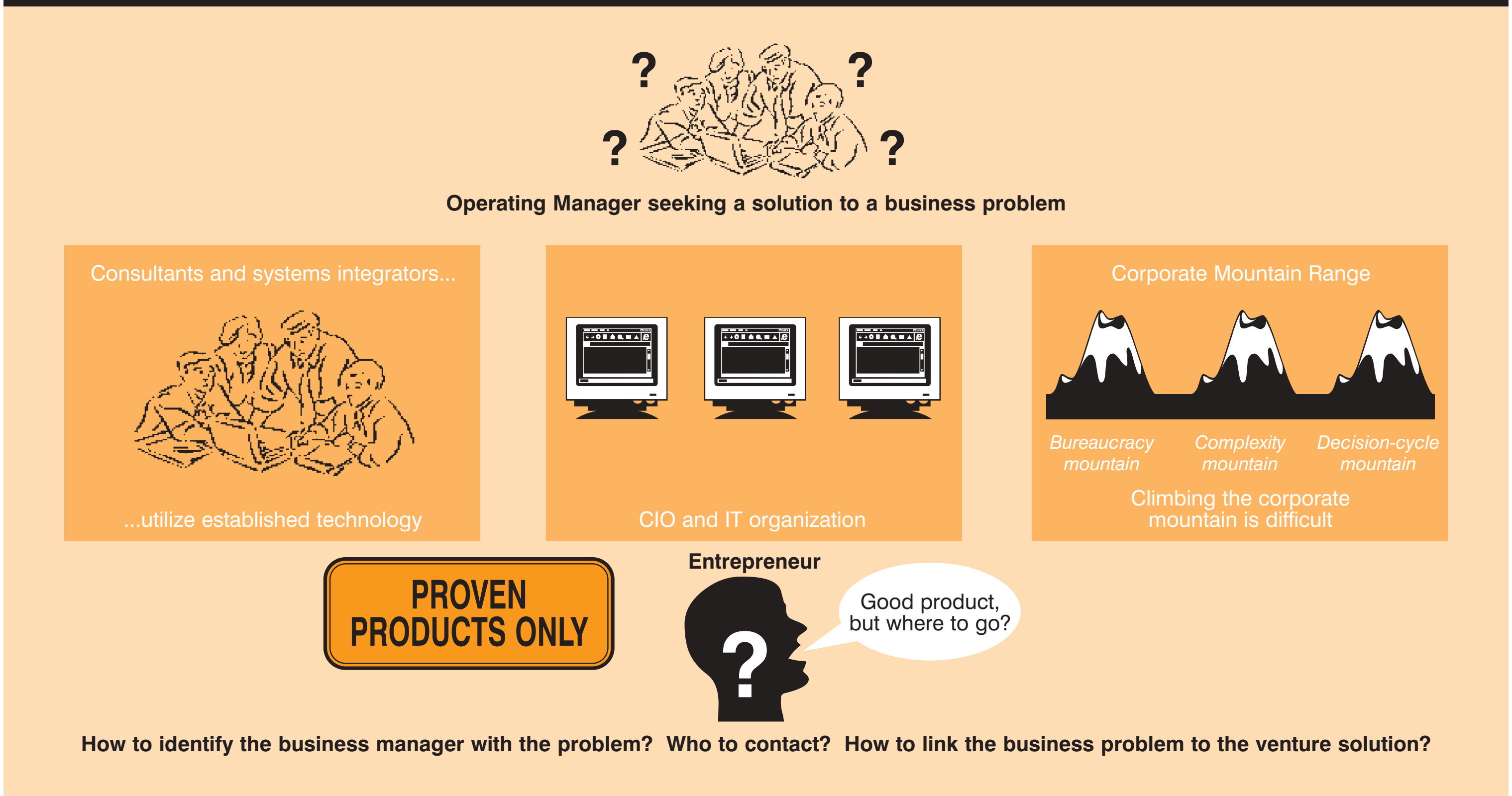
Venturing with b-business partners

Investor AB, a Swedish investment firm, formed a venture capital firm called b-business partners. b-business partners has $645 million of committed capital from Investor AB and its corporate investors. Among the powerful list of corporate investors are pharmaceutical giant, AstraZeneca, mobile handset maker, Ericsson AB, appliance maker, Electrolux, and Swiss electrical engineering group, ABB AG. The fund focuses on B2B e-commerce companies, wireless infrastructure, mobile content and related companies in Europe. b-business partners provides its entrepreneurs with access to corporate executives who can help them with their business model, pricing and sales strategies. Most importantly for the entrepreneur, these cross-industry, global companies can become customers and sources of revenue.

"We've learned that it takes just as much effort to build a company with a $50 million market cap as it does to produce one with a $500 million market cap."

John Scott, Chairman and CEO, XL Vision, Inc.

Business leaders and entrepreneurs will seek efficiency in an inefficient market



Venturing with CAP Fund

The Corporate Advantage Partners (CAP) Fund currently being formed is a unique new business model that combines the skills of Tier 1, top quartile investors with the need to increase productivity, improve customer responsiveness and reduce cost within the global corporation.

CAP is a strategic venture capital investment partnership that provides CIOs with a way to link business managers with problems, to venture solutions, using a disciplined approach to search, screen and work with ventures that offer a threefold to tenfold cost saving and rapid implementation. This complements the approach of engaging a software firm or developing applications internally.

Venture managers meet with CIOs and operating managers to define problems that might be solved by ventures. The venture firm identifies the "best of breed" solution and introduces entrepreneurial leaders to business managers and their IT groups. The intent is to identify solutions that increase ROI, can be implemented with speed and achieve competitive advantage. Additional benefits in terms of collective learning and knowledge sharing are also central to this business model. This unique new fund will be co-managed by two experienced venture capital firms.

Experienced investors point out that today – with valuations at all-time lows – is a good time to invest. Historical data show that venture investments yield high returns during recessionary periods.

In the next section we discover that CIOs have different attitudes toward venture capital support and we examine how these views affect their enterprises' future bottom lines.

"There is a large gap between Boardroom expectations and the reality of shop floor automation."

Eric Elzvik, Group Vice President, Strategy and Ventures, ABB

SECTION 4:

How reframing your challenges identifies opportunities

Business executives, including CIOs, have a range of views and attitudes regarding new business creation and ventures as additional tools. These have the potential to make or break their future success.

Should IT organizations pursue venture strategies?
Competing perspectives

This is not mission critical for many CIOs ...

- We know Accenture, KPMG and others offer only established technologies; they will introduce new software once it has been proven. This allows us to meet our objectives
- We know systems integrators have their own agenda and biases and we live with this
- Ventures and new business creation are interesting but not that important Focusing on ventures could be a distraction to our core responsibilities

- ***Not being in Gartner's "A" Group is not a problem***
- ***These issues don't keep me up at night***

This is mission critical to business leaders and CIOs . . .

- We need to improve productivity, reduce cost and win the battle in the market
- Sometimes our business managers don't know there are IT or venture solutions to their business problems
- There is so much innovation we can't leverage new technologies or monitor ventures in a structured manner
- We need to support our operating managers and customer–facing people
- A search engine to identify ventures and ideas for new business creation should be part of our toolkit

- ***We are in a very competitive market – we need new ways of thinking and new tools to compete. We need unrealistic goals!***
- ***These issues keep me up at night***

Competing perspectives exist

Research has shown that there are two competing perspectives regarding the effectiveness of venture strategies. One group of CIOs and other business leaders did not believe venture investing was mission-critical. They know that large IT service providers offer established technologies and introduce new software once it has been proven. This allows them to meet their objectives.

They also know systems integrators have their own agenda and biases as well as a strong preference to sell "repeatable solutions" to their clients. They live with this. They feel ventures and new business creation are interesting, but not that important. They are concerned that focusing on venture strategies could be a distraction to their core responsibilities. Not being in Gartner's "Type A" category is not a problem for these managers. As more than one CIO indicated, "These issues don't keep me up at night."

For other CIOs and their business colleagues, this was mission-critical. They saw themselves in an intense, highly competitive race to improve productivity, reduce cost and win the battle in the market. They were concerned that many business managers didn't know there are IT-enabled or venture solutions for their business problems. They recognize there is so much innovation they can't leverage new technologies or monitor ventures in a structured manner. They see their role as supporting operating managers and customer-facing people. A search engine to identify ventures and ideas for new business creation for them is an essential part of their toolkit. These managers need new ways of thinking and new tools to compete. Many CIOs, digital business managers and operation executives indicated, "These are exactly the issues that keep me up at night."

Business models that leverage assets: the difference between leadership and bankruptcy

Adobe, BP, P&G and SKF (see previous section) recognize the power of their intellectual property and technology. There are incentives and a pervasive "wealth creation" attitude in these companies. They recognize new business creation and venture investors are underexploited. They have demonstrated the will and the skill to extract value from their asset base through unique and original IT-enabled ventures.

CIOs and business managers need to think and act on multiple levels simultaneously

Provide infrastructure and support to the base business	and	Extract value from traditional assets
• New sales report to segment individual investors	vs/and	• Exploiting packet technology to establish an e-trading business
• Better route/yield planning to improve cost/passenger mile	vs/and	• Establish reservation and ticketing process/system
• Engage consultants and systems integrators to improve processes	vs/and	• Design and commoditize a HR admin. process and provide the service to multiple users across different industries
Problem solving		**Wealth creation**

Wal-Mart became the largest business in the United States on a revenue basis the same month K-Mart went into Chapter 11. One company was able to link strategy to technology while increasing customer responsiveness and reducing cost; the other declared bankruptcy.

Many traditional asset-based companies are under threat. Others are reinventing themselves and funding new, often IT-enabled ways, to extract value from their asset base.

This is easier said than done. For many companies a leadership void exists and the conditions to exploit the opportunities are not in place. Often, incentives, key metrics and career path progression do not encourage innovation and wealth creation. Too often, managers are dealing with immediate issues and the next large problem that has cropped up. There is little time to reflect on new strategic processes and budgets and staff are often constrained. Traditional approaches to IT solutions become myopic and “inside the box.”

Venture strategies requires curiosity, foresight and the combined commitment and talents of IT professionals and operating managers.

Problem solving versus wealth creation

Performance-driven CIOs and operating managers need to be engaged in problem solving and searching for wealth creation opportunities simultaneously. They have to provide the infrastructure, while asking, “Can we extract value from our assets?” Enlightened CIOs will say, “Yes, we’ll do this new sales report to segment individual investors,” but will also be asking, “Can we exploit this packet technology to establish a new e-trading business?” That’s actually how the Schwab e-trading business came about.

When an airline operating manager requests a better route and yield planning to improve cost per passenger mile, the IT organization will naturally support the request. However, both managers need to stand back and ask, “Do you think anybody else might have this problem?” or, “Who else would buy our solution?” Isn’t that what happened when AA developed the Sabre system for ticketing and reservations and ticketing? Managers need to be more curious about their ability to leverage process and application solutions beyond their own corporate boundaries.

“Ventures bring something to the party other than capital, and that's a very strong commercial discipline. That's well worth having.”

Roger Woolfe, Vice President and Research Director, Gartner EXP

IT and operating managers need to engage consultants and systems integrators to improve processes. But, they also need to be aware of opportunities to design and commoditize processes, and see the potential of providing services to multiple users. This is how BP moved to an outsourcing relationship with Exult.

This is the difference between seeing yourself as a problem solver versus seeing yourself as a wealth creator. It is a mindset. Once it exists, managers soon begin asking, “Where can value be extracted from our business?”

When managers hear wealth creation examples that have been successful, there is a tendency for some to say, “Well, that was easy. Anyone could have done that. My challenges are more complex and difficult. Nothing around here is as obvious as Exult, Sabre or SKF Reliability Systems.”

It’s always easy in hindsight to see a simple, brilliant idea. But, it’s harder to see one that’s less well developed and that may have great potential. My hunch is that many managers and their people are standing in front of some very good, ready-to-be-exploited ideas.

“In the past a company could succeed by being a leader in customer service or the low-cost producer. Today they must be the leader in customer service and the low cost producer.”

Michael Fleisher, CEO, Gartner, Inc.

Reframe the challenge to reclaim the future

To be an industry leader, CEOs, CIOs and executive teams must deliver financial results while being the dominant competitor in customer responsiveness, product and service innovation or the industry’s low-cost producer.

They need a pipeline that’s filled with unique approaches to improve processes, productivity and ROI. Venture strategies are not the total answer. But they are important tools IT executives and operating managers need to win the battle for customers in hotly competitive markets.

- Value is being extracted through new business models that better leverage assets
- Opportunity for IT-enabled new business creation and venture investing is underexploited
- Big opportunities exist
- There is a leadership void: venture strategy requires curiosity, foresight and the combined talents of IT and operating managers

There is a need to reframe the challenges CEOs and other business leaders face:

- How can CIOs and other business leaders exploit the neglected potential of ventures to renew their company?
- How can CIOs and other business leaders intercept new business models to renew core activities before ESPs and large software providers are ready to provide “commodity” solutions?
- How can this forgotten advantage be leveraged?
- Aren’t we in a race to achieve market and cost advantage earlier than the competition?
- Isn’t it the CIO’s remit to accelerate process improvement?
- Shouldn’t we use every available resource – including ventures?
- Shouldn’t CIOs figure out a way to minimize risk rather than avoid the terrain?
- How can ventures be identified, screened, selected and integrated into the business?

The next section provides a starting point for companies that wish to exploit the potential of venture strategies to fuel revenue growth and lower cost.

“If you are not failing you won’t succeed. If you can’t succeed you can’t grow.”
General Robert Wood Johnson, Chairman of Johnson & Johnson, 1938-1963

“It’s not an option not to invest in ventures. It used to be a simple business – you make a product and you sell it. Today I look at venture investing as part of market development.”
Leslie D. Vadasz, Executive Vice President, Intel Corp.; President, Intel Capital

SECTION 5:

Craft your own business model

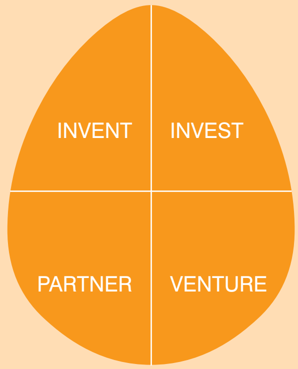
Top management needs to be explicit about the goals of their venture strategies. They need to ensure structure, organization capabilities and competencies, cultural imperatives, metrics and incentives are designed for success.

The challenge: craft your business model

- How can we extract value from our assets?
- What new business opportunities exist?
- Do we have the skills, experience and culture to manage the business building process?
- Should we spinout the business with an experienced partner

Ventures

Internal External



- Are business managers aware ventures could be a solution to their problem?
- Are business managers framing their problems in a way that enables us to search for ventures as a solution?
- Do we have an efficient mechanism for searching and screening ventures?
- Should we do it ourselves or with venture partners?

IT-enabled ventures extract value and create wealth

Implement your own action plan

Before deciding on an action plan that is right for your enterprise, you need to consider a number of issues.

- History – what is your experience in new business creation and venture investing and what can be learned from the past?
- Ambition – what are you attempting to achieve and what are your venture strategy objectives?
- Structure – should you manage this as an appendage to your business, or establish a separate entity?
- Organization capabilities and competencies – do you have the skills and know-how?
- Culture – do you welcome or unwittingly suffocate innovation, new ideas, and new ways of working?
- Metrics – do your measures drive you toward or away from a new approach to wealth creation and problem solving?
- Incentives – do you reward or discourage discovery and risk taking?
- Capital – how much capital will be committed? Is this sufficient to achieve your objectives?

Exploring the hidden potential of a company's IP and technology requires asking a different set of questions and motivating managers to seek possible solutions through venture strategies. The connective tissue between these two activities is often found in high performance cultures – a collective commitment to win in the market, a belief that every area offering potential competitive advantage should be exploited and an even deeper belief in the potential of ventures to extract value, solve problems and create wealth.

Questions about new business creation

In terms of new business creation or internal ventures, a manager will need to ask questions such as:

- How can we extract more value from our assets?
- What new business opportunities exist?
- Do we have the skills, experience and culture to manage the business building process?
- Should we spinout the business with an experienced partner?
- Where can value be captured in the business, and where are the leverage points?

"When you are trying to get a customer to do something new, move into the white space, adopt a disruptive technology, shift the paradigm – your argument has to be quantitative."

John Scott, Chairman and CEO, XL Vision, Inc.

Questions about faster and lower cost solutions
In terms of seeking venture approaches that offer faster and lower cost solutions to business problems, executives committed to exploring external venture investing would need to ask:

- Are business managers aware ventures could be a solution to their problem?
- Are business managers framing their problems in a way that enables us to search for ventures as solutions?
- Do we have an efficient mechanism for searching for and screening ventures?
- Should we do it ourselves or with venture partners?

Venture strategies will play an important role in the future. They will become a natural way of doing business. This is already the situation in many enlightened, industry-leading enterprises.

Venture strategies require an awareness, a mind set about what is going on around you. The bottom line is that for many venture strategies are a new way of thinking. You need to be very curious, very aware of what is going on externally, and always open to different types of solutions.

Smart organizations have a radar or antenna that focuses on external as well as internal needs. And being dissatisfied with your performance is a good start.

Ventures can be a source of wealth creation

Ventures can provide lower cost/faster solutions to internal problems

Ventures should be part of every CIO's "toolkit"

CIO as Venture Catalyst – not such an unrealistic expectation!

Further Reading

Beck, J. *IT Service Megaforces at the Millennium: A Case for Reinvention*. Gartner Dataquest Research Brief TTSV-WW-DP-0062, 2001

Chesbrough, H.W. *Making Sense of Corporate Venture Capital*, Harvard Business Review 80, no. 3, 2002. 90-99

Doz, Y., Santos, J. and Williamson, P.J. *From Global to Metanational: How Companies Win in the Knowledge Economy*. Boston: Harvard Business School Press, 2001

Gartner Executive Programs. *A Board's Eye View of Interbusiness Processes*, by M. Blosch. Gartner EXP report, September 2001

Laurie, D.L. *Venture Catalyst: The Five Strategies to Explosive Corporate Growth*. Cambridge, Mass: Perseus, 2001

Laurie, D.L. *The Real Work of Leaders: A Report From the Front Lines of Management*. Cambridge, Mass: Perseus, 1999

Laurie, D.L. & Heifetz, R.A. *The Work of Leadership*, Harvard Business Review. 72, no.1, 1995

Scholl, R. *Business Process Outsourcing Drives IT Services Growth in Sluggish Economy*. Gartner Dataquest Alert ITSV-WW-DA-0077, 2001

Weill, P.D. & Broadbent, M. *Leveraging the New Infrastructure – How Market Leaders Capitalize on Information Technology*. Cambridge, Mass: Harvard Business School Press, 1998